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TRADE AND DEVELOPMENT BOARD
Committee on Commodities
Working Party on Diversification, Processing,
Marketing and Distribution, including
Transportation
Third session
Geneva, 5 November 1990
Agenda item 6

DRAFT REPORT OF THE WORKING PARTY ON DIVERSIFICATION, PROCESSING MARKETING AND DISTRIBUTION, INCLUDING TRANSPORTATION

Third session

Held at the Palais des Nations, Geneva,
from 5 to 9 November 1990

Rapporteur: Ms. Maria Lucía Santos Pompeu Brasil (Brazil)

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INTRODUCTION

1. Pursuant to agreed conclusion 25 (XIII) adopted by the Committee on Commodities at its thirteenth session and the calendar of UNCTAD meetings approved by the Trade and Development Board, the third session of the Working Party on Diversification, Processing, Marketing and Distribution, including Transportation, was held at the Palais des Nations, Geneva, from 5 to 9 November 1990.

2. At its third session, the Working Party considered specifically the items indicated in subparagraphs 3.1(d) and 3.1(e) of agreed conclusion 25 (XIII). In the course of the session, the Working Party held four plenary meetings.

Opening statement

3. The Deputy Secretary-General of UNCTAD stated that, although the issue of diversification had been discussed in UNCTAD almost since its inception, success in diversifying had been well below expectations. Although horizontal and vertical diversification of the economy was a long-term development objective for most developing countries, as recognized in the Final Act of UNCTAD VII, diversification out of commodities had occurred principally in those countries which had a more diversified economic base, whereas highly commodity-dependent countries had shown little or no improvement. Developing countries which depended on only a few commodities for most of their exports were very vulnerable to factors beyond their control. The solution to this problem could only be found in diversification, especially through adding activities rather than substitution. These activities included developing new export products, stimulating the processing of commodities before export and increasing participation in, and returns from, the marketing and distribution of exports. To permit rapid and sustained economic progress in developing countries, the process of diversification had to be accelerated. Countries suffering from declining income and export earnings could not afford to wait for income and export growth in order to diversify. He saw the two substantive items on the agenda as being of key importance in this regard.

4. He noted that at its second session the Working Party had identified several interrelated factors and conditions which required further efforts as well as several issues regarding further research and analysis. However, these did not substitute for action-oriented measures, which were, for the most part, not specified.

5. Referring to the documentation submitted to the current session of the Working Party, he called attention to the fact that the secretariat had made some suggestions on measures that could be taken by the international community to fill the gaps in the information area, to co-ordinate flows of information, and to make information more accessible and usable by countries implementing diversification programmes. With regard to the issue of financial flows, he saw the problem of adequate finance for diversification as having grown rather than diminished. Foreign private capital flows to developing countries had declined considerably and continued to be concentrated on only a few countries and sectors. For commodity-dependent countries official flows to supplement domestic savings were the main source of investment finance. He expressed appreciation for the information provided by the international financial institutions. On the basis of this, the secretariat had been able to identify some areas where special efforts and initiatives were needed, comprising finance for creating an appropriate domestic supportive environment and pre-investment assistance as well as funds specifically for investment in diversification activities. He expressed the hope that, at the current session, the Working Party could finalize its conclusions and recommendations for consideration by the forthcoming Committee on Commodities.

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Chapter I

THE IMPROVEMENT OF INFORMATION FLOWS TO AID INVESTMENT DECISIONS

(Agenda item 3)

and

ADEQUATE FINANCIAL RESOURCES FOR DIVERSIFICATION

(Agenda item 4)

6. For its consideration of agenda item 3, the Working Party had before it the following document:

"Information flows to aid investment decisions" - report by the UNCTAD secretariat (TD/B/C.1/AC/11 and Corr.1).

7. For its consideration of agenda item 4, the Working Party had before it the following document:

"Financial resources for diversification projects and programmes" - report by the UNCTAD secretariat (TD/B/C.1/AC/12).

8. The spokesman for the Group of 77 (Egypt) said that diversification reflected the developmental dimension in tackling the commodity problems of developing countries and could not be properly addressed except in the wider context of problems facing these countries. It was the international consensus that diversification should be intensified; diversification was an attempt to achieve not only a more equitable international order but also a more efficient utilization of world resources for the common good of all countries. The dependency of developing countries on commodities for their export earnings was still unacceptably high, while two thirds of these countries remained heavily commodity-dependent and one third had even experienced an increased reliance on one or two commodities. His group recognized the progress made during the second session of the Working Party and emphasized the need for further efforts to be undertaken in the areas discussed in that session, especially concerning market access conditions and other factors and conditions pertinent to the development of viable diversification programmes.

9. Referring on the issue of adequate financial resources for diversification he recalled the consensus of the international community on the need for an adequate expansion of official bilateral and multilateral resources as well as private resources to finance diversification projects and programmes. He emphasized the following points: (a) Limited savings potential and chronic shortage of domestic financial resources constituted a

major constraint on investment for many, especially low-income and highly commodity-dependent developing countries. This situation was aggravated by the debt problems of the developing countries and the resulting net negative transfer of resources. As a result of the decline in financial flows from international institutions, and from commercial and private sources, many commodity-exporting countries had increasingly to finance their investment from official sources; (b) Highly commodity-dependent low-income countries were in a very disadvantageous situation in their efforts to attract external financial resources owing to inadequate support systems and to the limited capacity of their domestic markets; (c) Financing given by international financial institutions to commodity-related export-oriented diversification activities represented a small portion of their total commitments. This finance was offered mainly to countries where diversification was easier to achieve.

10. The developing countries were suffering from a decrease in their export earnings and in their domestic savings and an increase of the debt burden at the same time as external financial flows were declining. Financing for diversification programmes was becoming harder to get and it risked being totally obscured by other pressing necessities. The Group of 77 believed that the setting-up of a special international facility to provide, alongside existing sources, adequate financing to diversification programmes was a desirable and a justified step. This facility could identify priorities and provide additional finance to help to stimulate the diversification process in developing countries, especially in those which had not managed to decrease their commodity dependency.

11. Turning to the issue of the improvement of information flows to aid investment decisions, he noted that the availability of the right information and the right timing was an indispensable element in any sound decision. Such information was beneficial to both producers and consumers. The lack of reliable information about international demand and production capability had serious economic consequences for a number of developing countries. The developing countries faced two sets of problems in this area, the first concerning the technical capacity and financial resources needed for the appropriate use of the increasingly sophisticated information technologies and the second relating to the gaps in information and information flows. These gaps consisted of: (a) the inadequacy of information on the resource assessment and on priorities established in diversification programmes as well

as of information on related macro- and micro-economic factors that should be comprehensively collected and disseminated to potential investors; (b) the lack of information on and transparency of prices and markets for a number of commodities, especially for non-traditional and processed commodities; and (c) the scarcity of information on world industry, market structures, investment plans and technology. The proper analysis and evaluation of the available information was another area in which developing countries needed assistance.

12. The spokesman for Group B (Germany) said that his Group had regarded the task of the Working Group as oriented towards practical solutions that could be of use to those countries that tried to find out if DPMD-measures could be of decisive help to their development. Although there was probably no encompassing solution to overcome commodity dependency, Group B was of the view that DPMD-measures could be among the most useful and effective ones. The effort of the secretariat to pursue, in the final two documents on "Adequate financial resources for diversification" and the "Improvement of information flows to aid investment decisions", a very concrete and practical approach met with the full support of his Group. Those documents deserved careful study and consideration.

13. A country that decided to look into its possibilities for diversifying its economy, and especially its export structure, needed an enormous amount of information. Group B agreed with the secretariat that the nucleus of the problem was reflected in two central questions: where could the necessary information in connection with a DPMD-related decision be found and how could this information be most effectively used. His Group found that the secretariat report (TD/B/C.1/AC/11 and Corr.1) provided helpful and detailed information on these questions. It came already close to being a kind of information manual for a successful diversification programme. It also drew attention to the pre-eminent task of international commodity study groups and other commodity forums that encouraged participation: namely, to serve as a source for dealing with all sorts of questions connected with a given commodity. He felt that participation in market discussions of all kinds was of great importance to both developed and developing countries.

14. Group B countries had been aware of the fact that vertical as well as horizontal diversification needed funding. They had also been aware of the fact that the development efforts of the developing world, and among those countries especially the LDCs, needed strong support for the implementation of

such programmes. It was the view of his Group that there was a whole - though not yet fully satisfying - variety of efforts already made to contribute through technical and financial assistance to the implementation of DPMD-measures. He pointed out that the Second Account of the Common Fund for Commodities was ready for operation. He thought that it should be intensively and effectively used for this purpose, particularly for projects on horizontal and vertical diversification, with a focus on commodities of special interest to LDCs. Nevertheless, members of Group B remained open for discussions about external financing of DPMD-measures within the established funding systems and this should be done on a country-by-country basis. But no amount of external DPMD-assistance could replace adequate national diversification policies and private initiative. In the first place it was the firm responsibility of each country to create the conditions for a sustainable and socially balanced development. That did not exclude, however, the acknowledgement of the need for solidarity and partnership between developed and developing countries.

15. It was Group B's view that the report of the Working Party to the fourteenth session of the Committee on Commodities should contain, in addition to the substantive results of its work, two further conclusions: (1) that the very important work on diversification parameters should be continued, and constitute a central element of the work programme of the Committee on Commodities; and (2) that it should be considered in which way and in what form the results found by the Working Party could be made available to those who needed such information for the implementation of diversification programmes. Finally, Group B also proposed that the Working Party undertake an informal assessment of the work it had accomplished so far.

16. The representative of Italy, speaking on behalf of the European Economic Community and its member States, recalled the importance of diversification as one of the two essential objectives for co-operation in the commdities area in the fourth Lomé Convention. He stressed that in recent years the implementation of diversification policies had been more difficult for highly commodity-dependent countries. Access to markets was fairly liberal for commodities and the Community had largely opened its markets for those products, although further progress was envisaged. There were also increased possibilities for trade in commodity products among developing countries encouraged by South-South commercial co-operation. While unfavourable developments in commodity markets and instability in prices had negative effects on the ability of commodity exporting countries to invest in

diversification, the major problem was that several highly commodity-dependent countries had lost market shares to more developed producers whose competitiveness was based on a more highly developed infrastructure, more advanced technology, skilled labour and a better knowledge of modern commercial techniques. Therefore problems in the area of diversification stemmed from both the weakness in national economies and from the situation in commodity markets. Investments in diversification had so far been highly concentrated in developing countries that had relatively diversified economies with sizeable internal markets. Diversification should be encouraged in highly commodity-dependent countries through developing infrastructure and training.

17. He recalled the main well-known lines on which diversification efforts had to be concentrated such as improving productivity and the quality and competitiveness of products, using market signals to guide investment decisions and a better knowledge of commercialization techniques. With regard to the issue of information flows, he agreed that a better transparency of the markets would benefit the commodity producers and, in this context, active participation in intergovernmental study groups was essential.

18. From the concentration of investments in products that were in over-supply he concluded that it was necessary to have better concertation between bilateral and multilateral donor institutions the better to evaluate the impact of a project on the global market and on other producers. The Community did this for the products which it financed. He thought this idea might be pursued through study groups.

19. He felt strongly that diversification programmes should be aided by the international community and co-ordination should include donors, international institutions and main producers. The Common Fund, owing to its limited volume of resources, would have to establish priorities among the different projects.

20. Finally, he recalled the different instruments used by the Community to support diversification in countries dependent on commodities, such as classic projects for the development of infrastructure, SYSMIN, STABEX and the International Development Centre activities and different studies on cotton, tropical wood, tea and hides and skins, in order to evaluate conditions and possibilities of DPMD.

21. The representative of China said that the reports by the secretariat contained some useful proposals that inspired further reflection. To make suitable investment decisions, information on a wide range of topics was

essential for developing countries undertaking diversification efforts, including information on natural resources, management requirements, market outlets, and laws and regulations of importing countries. Several developing countries had already made great progress in developing appropriate information technology, but most of them encountered great difficulties in obtaining and especially in disseminating and utilizing information. Although support to enable developing countries to improve the collection, dissemination and utilization of information was already given by several developed countries, the international community could play a greater role in this area.

22. He considered that there was a clear need for financial support for diversification, processing, marketing and distribution projects. The 1980s had been a lost decade for most developing countries. Trade conditions had been very unstable, the debt burden of many countries had increased, the shortfall of external resources had been aggravated and per capita incomes had been falling. Many developing countries had encountered growing problems in mobilizing adequate domestic resources. At the same time external financial flows, especially to heavily commodity-dependent developing countries, had declined considerably. He believed that the international community should undertake greater efforts in this area, especially to support the group of highly commodity-dependent countries. In this connection, the proposal contained in the secretariat report to set up special diversification funds especially for African developing countries, as well as the proposal concerning information flows to aid investment decisions, deserved serious consideration.

23. The representative of the Union of Soviet Socialist Republics underlined that, in a situation of growing interdependence, the solution of problems related to DPMD should contribute to a steady growth of the world economy, rationalization of internal economic ties and better functioning of international markets. The efforts in this area should be taken with due consideration for their consequences for all countries. The issue of market access conditions was one of the most important elements in the work on DPMD and, along with other issues, required further consideration.

24. He noted that, although there were many sources of information needed for the implementation of DPMD programmes, developing countries still faced serious gaps in the provision of adequate information for their diversification efforts and UNCTAD could contribute to narrowing these gaps.

Efforts could be concentrated, in particular, on obtaining information on systems of marketing and distribution of developing countries' commodities controlled by TNCs, on various forms of trading in raw materials and processed commodities, on possibilities of greater participation in and control of the activity of commodity exchanges, on price formation and distribution of profits in the commodity sector, etc. The secretariat could carry out studies in some other areas related to DPMD. An efficient analysis of issues related to diversification called for the active participation of various international organizations - including commodity bodies - and, accordingly, an enhanced co-ordinating role for UNCTAD. All participants in international trade should have equal access to information, including that of a commercial character. He emphasized that economic reforms currently under way in the USSR created additional prerequisites for better information on the state of that country's market.

25. He expressed his support for the following orientations for UNCTAD's research activities: (a) development of tripartite and other multilateral forms of co-operation, with effective control of foreign capital; and (b) specific forms of economic relations, including joint ventures, compensatory projects, long-term contracts, etc. He also stressed the importance of diversifying the sources of financing the DPMD projects in developing countries, in particular through the Common Fund, international commodity agreements, UNDP, and other international and regional organizations. The importance of measures aimed at mobilizing local financial resources in developing countries should not be overlooked. Finally, since technical assistance and human resources development played an important role in the success of diversification efforts, concrete approaches to the solution of problems in these areas should be elaborated.

26. The representative of the International Trade Centre UNCTAD/GATT, reporting on the work of the Centre in the area of trade information for commodities, said that ITC supported the commodity-related efforts of developing countries aimed at diversification, processing, marketing and distribution, particularly by improving their product and market development efforts and by strengthening their competitive position. Focusing its main attention on small commodity-exporting countries, ITC co-operated closely with specific business enterprises to achieve concrete results. Trade information systems and diversification formed an important part of ITC's technical co-operation activities. The first step in ITC's market development work were

market studies and extensive reviews providing the basic information required by exporters. Investment feasibility studies based on identified market opportunities were carried out. ITC also assisted in the formulation of multinational generic promotional campaigns for several commodities. In addition to advice on setting up trade information services in developing countries, ITC operated several specialized information systems providing services from headquarters: statistical services, a telex market news service for certain key products and services in the field of creation of trade information data bases.

Chapter II

ORGANIZATIONAL MATTERS

A. Opening of the session

(i) The third session of the Working Party on Diversification, Processing, Marketing and Distribution, including Transportation, was opened on 5 November 1990 by the Vice-Chairman-cum-Rapporteur of the Working Party at its second session.

B. Election of officers

(Agenda item 1)

(ii) At the 1st plenary meeting of its third session, on 5 November 1990, the Working Party elected Mr. Walter Bastiaanse (Netherlands) as Chairman and Ms. Maria Lucía Santos Pompeu Brasil (Brazil) as Vice-Chairman-cum-Rapporteur.

C. Adoption of the agenda and organization of work

(Agenda item 2)

(iii) At the same meeting, the Working Party adopted the provisional agenda for its third session (TD/B/C.1/AC/10), as follows:

1. Election of officers
2. Adoption of the agenda and organization of work
3. The improvement of information flows to aid investment decisions
4. Adequate financial resources for diversification
5. Other business
6. Adoption of the report of the Working Party to the Committee on Commodities.

(iv) The Working Party also decided that detailed discussions on the two substantive agenda items (i.e. items 3 and 4) would be conducted in an informal setting.

D. Attendance [1/]

(v) The following States members of UNCTAD were represented at the session: Algeria; Australia; Austria, Bangladesh; Belgium; Bolivia; Bulgaria; Canada; Chile; China; Democratic People's Republic of Korea; Egypt; Finland; France; Germany; Ghana; Greece; Hungary; India; Indonesia; Iraq; Italy; Japan; Kenya; Kuwait; Lebanon; Madagascar; Malaysia; Mexico; Morocco; Netherlands; Nigeria; Norway; Panama; Peru; Philippines; Portugal; Republic of Korea; Sao Tome and Principle; Senegal; Sri Lanka; Sweden; Switzerland; Thailand; Turkey; Union of Soviet Socialist Republics; United Kingdom of Great Britain and Northern Ireland; United States of America; Venezuela; Zaire.

1/ For the list of participants, see TD/B/C.1/AC/INF...

(vi) The International Trade Centre UNCTAD/GATT was represented at the session.

(vii) The following specialized agencies were represented at the session: International Labour Organisation; Food and Agriculture Organization of the United Nations.

(viii) The following intergovernmental organizations were represented at the session: European Economic Community; Organization of African Unity.

(ix) The following non-governmental organization was represented at the session: Special Category: International Container Bureau.

E. Adoption of the report of the Working Party to the Committee on Commodities

(Agenda item 6)

[To be completed]

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Third session
Geneva, 5 November 1990

Draft agreed conclusions submitted by the Chairman

1. The Working Party expressed its appreciation to the UNCTAD secretariat for the well balanced technical documentation which it had prepared for the Working Party's two sessions and which provided a useful basis for the discussions, in particular in informal meetings. It recalled the policies and measures on diversification, processing, marketing and distribution as agreed in paragraphs 81 to 85 of the Final Act of UNCTAD VII.

2. The Working Party noted that while one third of the 86 developing countries examined by the UNCTAD secretariat had achieved some degree of diversification in terms of their dependence on commodities in export earnings during the period 1967 to 1986, two thirds still remained heavily commodity-dependent and half of these had even experienced an increased reliance on one or two major commodities in their export earnings. Diversification within and outside of commodities has principally occurred in those countries possessing a more diversified economic base, including those with a more diversified commodity base.

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3. The Working Party recalled that the Conference had noted that decisions on diversification are primarily the responsibility of developing countries. It recognized nevertheless that diversification was a subject of interest and concern to all countries. It had been stimulated by real income growth and growth in world trade, as well as by facilitating actions and policies on the part of Governments to create a climate conducive to diversification efforts by enterprises. A variety of constraints, both internal and external, including indebtedness, had, though, adversely affected such efforts.

4. Bearing in mind the mandate given to the Working Party by the Committee on Commodities in its agreed conclusion 25 (XIII), the Working Party considered the following interrelated factors and conditions which require further efforts, as well as certain issues which require further research, taking into account commodity- and country-specific differences.

A. Market access conditions and other factors and conditions pertinent to the development of viable diversification programmes

5. It was recognized that most developing countries continue to rely on exports to absorb a significant proportion of their commodity sector production, whether in raw, semi-processed or processed form, as a result of which there is a linkage between diversification efforts and market access conditions and between such efforts and market opportunities. In consequence it was stressed that tariff and non-tariff barriers to trade, including escalation of barriers according to the stage of processing, are an important constraint on vertical and horizontal diversification and should be eliminated or reduced in line with international commitments made.

6. The Working Party recognized that the extent of infrastructural development (i.e., transport system, port facilities, storage, electricity, irrigation and communications systems), as well as the availability of technology, of external financial and domestic resources and of appropriately skilled labour, have a direct impact on diversification, processing, marketing and distribution, including transportation. Increased domestic and external efforts are needed in the above-mentioned areas, including for the least developed countries and in the context of the United Nations Programme of Action for African Economic Recovery and Development 1986-1990 (UN-PAAERD).

7. The Working Party noted that high degrees of concentration of market power and vertical integration in enterprises could impede diversification and recognized that the entry of new enterprises into markets could improve

8. The Working Party agreed that further research and analysis were required on the impact of diversification of various market access conditions, government policies, structural adjustment programmes, and the forms and methods of trading for primary and processed commodities and requested the UNCTAD secretariat to submit to the Committee on Commodities its suggestions for specific studies in these areas.

B. The identification of sectors offering opportunities for diversification and increased participation of developing countries in processing, marketing and distribution, including transportation, and of the factors that could facilitate diversification of the economies of developing countries heavily dependent on commodity export earnings, as well as possible means for dealing with such factors, based on past and present experiences

9. The Working Party recognized that the identification of precise diversification opportunities was a country-specific task and while decisions on diversification were primarily the responsibility of an individual country, an improvement in the external environment was also required. A country, in elaborating its programmes for diversification would need to take into account competing needs and possibilities, the international market situation and requirements for sustainable growth. The Working Party agreed that increased international co-operation could open up new opportunities for diversification and lead to harmony in such programmes. It also agreed that further research on experience with diversification across countries needed to be undertaken which could assist in the formulation of policy options for Governments and international organizations, bearing in mind the relevance of experience to the prevailing situation, and it requested the UNCTAD secretariat to submit to the Committee on Commodities its suggestions for specific studies in these areas.

C. Technical assistance for the implementation of these programmes, as well as for feasibility studies and infrastructural developments, and technical co-operation projects and programmes, particularly for human resources development

10. The Working Party recognized that lack of appropriately skilled labour affected the capacity of developing countries to take advantage of existing or potential opportunities for diversification, processing, marketing and distribution and agreed that technical assistance can play an important role in overcoming this constraint.

11. The Working Party welcomed the approach of the UNCTAD secretariat in performing its co-ordinating role with respect to the identification of needs and gaps in technical assistance relevant to diversification, processing, marketing and distribution, including transportation. It agreed that UNCTAD should continue this approach and collect, synthesize and disseminate information on specific technical assistance needs and availabilities, and in this regard requested Governments and international organizations to provide more information. The Working Party took note of the two UNDP preparatory assistance projects being executed by UNCTAD, namely "A programme to promote commodity processing in developing countries" and "Policies for improving the commercialization of commodities by developing countries" and of the willingness of other international organizations to co-operate in the elaboration of the full projects.

D. The improvement of information flows to aid investment decisions

12. The availability of adequate information is a basic condition for diversification and the improvement of information flows is one of the key areas for international co-operation.

13. It was recognized that for the elaboration of diversification programmes countries needed to collect information to permit an assessment of their agricultural and mineral resource bases. This assessment and the identification of investment opportunities are clearly linked to the availability and useability of various types of information.

14. Although information and data on commodities are abundant and extensive the Working Party recognized that existing information is often incomplete for market transparency purposes. It noted that assessments of the agricultural and natural resource bases in developing countries are also often incomplete and not sufficiently up-to-date, and that new technologies were being developed to improve the accuracy of such assessments. Scarce information concern mainly aspects such as marketing mechanisms, especially for non-traditional commodities and processed goods, market and industry structures as well as development and investment plans of other interested parties. It also noted the lack of tools, equipment and training of human resources in developing countries to permit an optimal use of available information. It recognized that direct contacts both at the intergovernmental and industry sector level and among producers and consumers were important

15. The Working Party agreed that there was a need for increased international co-operation to improve information flows through the following means:-

(a) It called upon governments and industry in both developing and developed countries to increase their active participation in, and to make better use of producer-consumer fora as a means of exchanging information on invesments, prospects and markets for individual commodities as well as for exchanging views. It recalled that the Conference had agreed that producer/consumer co-operation, where appropriate and feasible, should be enhanced, strengthened or established;

(b) It encouraged international agencies and interested donor countries to support governments of developing countries in up-dating, completing and improving the contents of the assessments of their natural resource bases;

(c) It took note of the initiatives undertaken by UNCTAD/GATT/ITC, UNIDO, FAO, UNCTAD and government agencies in relation to collection and dissemination of commodity-related information. It invited bilateral donors and UNDP and other competent United Nations Organizations to consider providing financial support for improvements in information flows, for the co-ordination of information systems and for assistance to developing countries through training and development of analytical tools for better use of existing information;

(d) It request that the UNCTAD secretariat within its existing resources and in light of the co-ordinating role of the Committee on Commodities;

(i) to provide technical assistance to developing countries to assist them in collecting, processing, disseminating and making full use of information to help them take decisions on investment in viable diversification activities;

(ii) to analyse and disseminate, in collaboration with other competent organizations, publicly available information on industry and market structures for individual commodities of major export interest to commodity exporting countries, especially low-income commodity-dependent developing countries;

(iii) to draw up an inventory of the criteria for the evaluation of diversification projects in the light of paragraphs 19 to 25 of document TD/B/C.1/AC/11, with a view to facilitating the work of the decision-making bodies in producing countries;

(iv) to continue to develop a micro-computer-based commodity information and analysis system (MICAS) to assist in storing and analysing world-wide information on commodities.

E. Adequate financial resources for diversification

16. The Working Party noted the importance of diversification programmes. In this regard it recognized that national diversification efforts of developing countries can only yield results over a period of time and require significant investment resources including medium and long-term finance provided from multilateral and private sources. It was recognized that a chronic shortage of domestic financial resources coupled with a decline of foreign private capital flows and the latter's concentration on a few countries and sectors, as well as the relatively small proportion of official development finance directed to commodity-related export diversification activities put many, especially commodity-dependent low-income developing countries in a disadvantageous situation in their efforts to diversify commodity production and exports.

17. The Working Party noted that the Conference had called for an adequate expansion of official bilateral and multilateral resources, as well as private resources, including private investment, to finance appropriate diversification projects and programmes, possibly through special facilities for this purpose. It encouraged utilization of existing facilities, for example the International Finance Corporation and/or relevant bilateral schemes.

18. The Working Party agreed on the following:

(a) Resources should include financial assistance from existing resources for pre-investment assistance to elaborate diversification programmes and to identify projects attractive for foreign investors, as well as adequate resources for investment in the identified diversification activities, particularly in countries which remain highly dependent on exports of a few primary commodities. The elaboration of economically viable diversification projects is likely to attract greater funding for this purpose from international financial institutions and foreign investors;

(b) Existing multilateral financial institutions should be encouraged to give appropriate emphasis to diversification in their overall financial programmes and to co-ordinate their efforts;

(c) Further voluntary contributions to the Second Account of the Common Fund could assist in diversification efforts;

(d) Every effort should be made to create and increase domestic resources in developing countries, within their capabilities and to channel them into diversification activities;

(e) Both developed and developing countries should continue appropriate policies, measures and incentives to encourage private investment flows for diversification activities in developing countries and to create a more favourable external environment;

(f) Financial resources for diversification and their modalities should, to the extent possible, continue to be reviewed by the UNCTAD secretariat. The Working Party invited governments and international organizations to continue to provide available information.

F. Future work

19. The Working Party recognized that, while its mandate is exhausted, work on diversification should be continued and constitutes a very important element of the work programme of the Committee on Commodities. The Working Party agreed above on further research and analysis and other actions that should be undertaken by the UNCTAD secretariat and by other international organizations. These would need to be considered by the Committee in deciding upon the manner in which further work on diversification should be carried out in order to fulfil the decisions taken by the Conference in paragraphs 81 to 85 of the Final Act of UNCTAD VII.